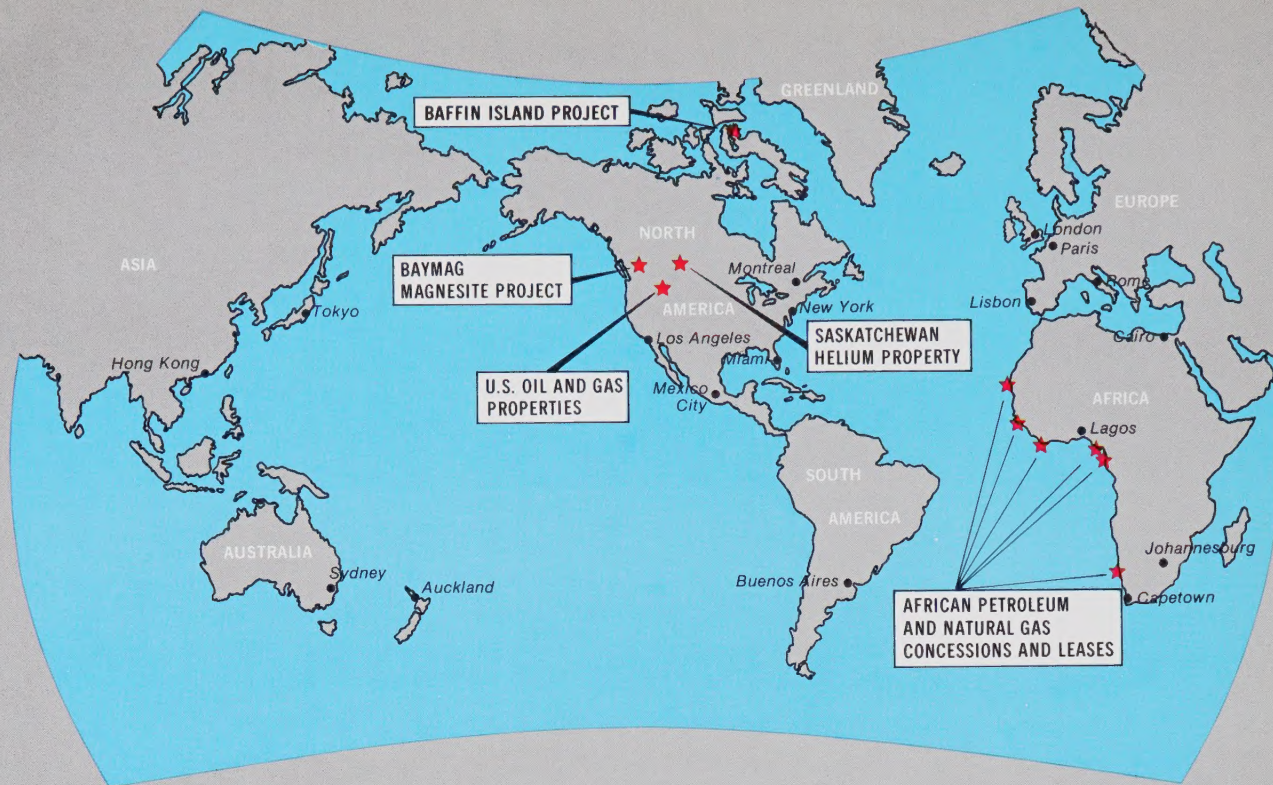


AR11

Mineral
Resources
International
Limited
Annual
Report
1975





MINERAL RESOURCES INTERNATIONAL LIMITED

Directors

C. FRANKLIN AGAR
HAROLD P. MILAVSKY
VICTOR F. BURSTALL
WILLIAM A. CLARKE
JOHN L. GAIRDNER
SAM HASHMAN
ZAVE CLIMAN

Registrar and Transfer Agent

MONTREAL TRUST COMPANY
Toronto, Montreal, Winnipeg,
Calgary and Vancouver

Solicitors

BURSTALL, CLARKE, JONES & COADY
Calgary, Alberta

Head Office:

Suite 1513 - 44 Victoria Street
Toronto, Ontario

Officers

C. FRANKLIN AGAR, President
HAROLD P. MILAVSKY, Vice-President
VICTOR F. BURSTALL, Secretary

Auditors

TOUCHE ROSS & CO.
Calgary, Alberta

Shares Listed

"MRI" The Montreal Stock Exchange

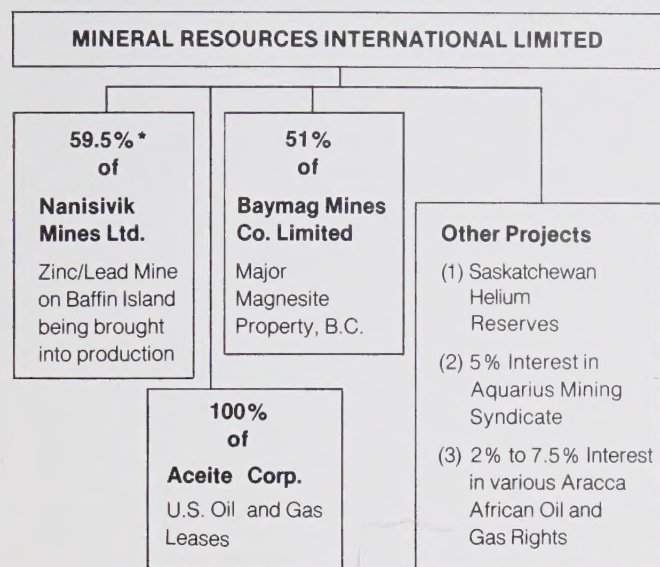
Operating Office:

100 - One Calgary Place
330 - 5th Avenue S.W.
Calgary, Alberta

Report to the Shareholders

In review 1975 was a significant year in the growth of your Company. The signing of the final financing arrangements for Nanisivik Mines Ltd. allowed work to continue toward bringing that company's zinc/lead mine on Baffin Island into production. Late in 1975 the acquisition of a majority interest in Baymag Mines Co. Limited was negotiated which significantly added to MRI's future cash flow growth potential.

MRI's resource assets are now organized as follows:



** Overrun capital cost arrangements will reduce this interest but we anticipate that MRI's final interest in Nanisivik will not be less than 50%.*

MRI actively participates in the management and direction of both Nanisivik and Baymag which, because of their project sizes, costs, respective stages of development and importance to MRI, will continue to demand most of MRI's management's efforts.

Nanisivik is scheduled to commence production before the end of 1976 and it should ship its first full year of production of concentrates in 1977. Cash generation from the sale of concentrates will initially be devoted to the repayment of Nanisivik's debts with the rate of debt retirement dependent on the concentrate production achieved, operating costs and future metal prices.

Baymag is at an earlier stage of development than Nanisivik. Sufficient drilling and sampling has been carried out to determine that it has major reserves of high grade magnesite. Development feasibility study work is underway and we have started discussions with regard to marketing and financing. We are optimistic that such arrangements can be completed in 1976 and that a production decision can be taken in this time frame.

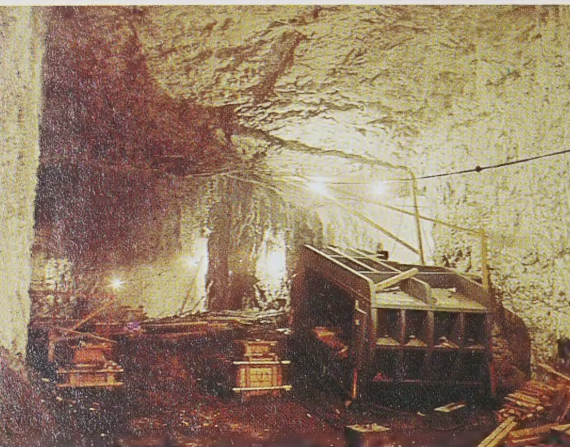
Because the Baymag ore reserves are large, the initial project size will be controlled by marketing arrangements. At this stage these factors have not been determined but the concept of a project sized to produce 200,000 tons per year of dead-burn magnesite product and costing on the order of \$75,000,000 is under consideration. A development of this size will involve some form of project financing. We anticipate that Baymag's project development will significantly add to MRI's future profit position.

Both Nanisivik and Baymag are mining projects whose product markets will be related to the future activity in the Steel Industry and to the economy in general, and we are considering ways and means of diversifying into other resource activities with unrelated markets and more immediate cash flow potential. This strategy suggests involvement in the energy sector and/or in precious metals. To this end we are examining investment opportunities in these sectors and the means of financing such new ventures.

On behalf of the Board of Directors

C. F. Agar
President

Calgary, Alberta
May 7th, 1976



Top picture, dock near completion.
Picture above, underground development at
Nanisivik and below, erection of mill complex
building.



Operations

Nanisivik Mines Ltd.

Good progress was made in 1975 toward the objective of bringing the Strathcona Sound project into commercial production by the end of 1976. Many of the more difficult aspects of this unique project were successfully completed during the past year, and thus many of the uncertainties associated with the construction of a mining project in the High Arctic have been overcome.

Some 6,000 feet of the underground development and large excavations for primary and secondary crushing and for fine ore storage were completed in 1975. More work is to be done in mid-1976 in preparing working faces prior to the start-up of mining operations. Installation of underground equipment is in progress with all components of the crushing and screening circuit now in place including the jaw crusher and cone crusher. Conveyor installations and the connection between the mine and the mill are scheduled to be completed over the next few months.

Detailed drilling underground in the west zone for mine planning purposes was carried out at the end of 1975. Drilling results confirmed the original interpretation of the orebody outline which was based on surface drilling. The only exception is that there appears to be less faulting than originally anticipated.

Some geophysical surveys and geological mapping were carried out during the year with a similar program being planned for 1976. Drilling of exploration targets will not be done until 1977 after construction activities are completed. All claims have been maintained in good standing with some claim groups being transferred to mining leases.

In the spring of 1975 work started on dock construction using the sea ice as a working platform. Although some concrete work remains to be done in 1976, the dock was ready for use on the 1975 sealift and greatly facilitated the offloading of supplies and equipment as it eliminated the costly and hazardous operation of delivering cargo from ship to shore using small barges. This dock is the first deep water dock facility built in the High Arctic and has attracted international interest because of the construction techniques that were employed.

During the 1975 sealift 11,000 tons of dry cargo and equipment were moved to Strathcona Sound plus an additional 7,500 tons of fuel products. The first ship arrived on July 16, which was the earliest date yet for shipping in the High Arctic. The last ship departed on September 30th.

Substantial progress was made in the construction of the concentrator complex. This building also encloses the power plant, maintenance facilities, warehouse, and administrative area. The objective was to completely close in this building by the end of October so that work could continue inside the building throughout the winter months.

Concrete foundations were placed, structural steel erected, and exterior cladding and the roof installed by October 30th. Work has continued inside the concentrator complex during the winter months of 1975/76 including installation of equipment, electrical and piping services, and all other trades involved in completing this large building.

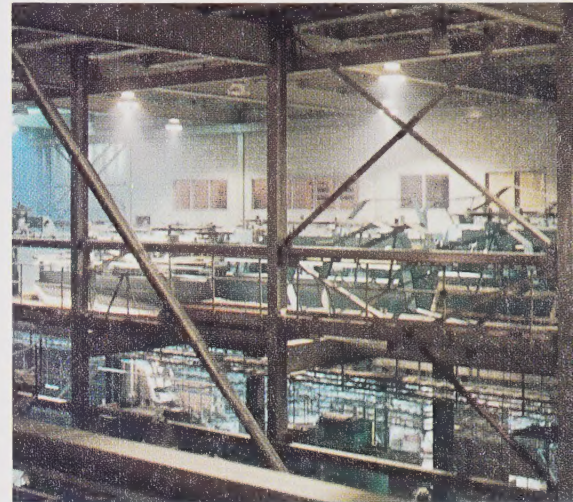
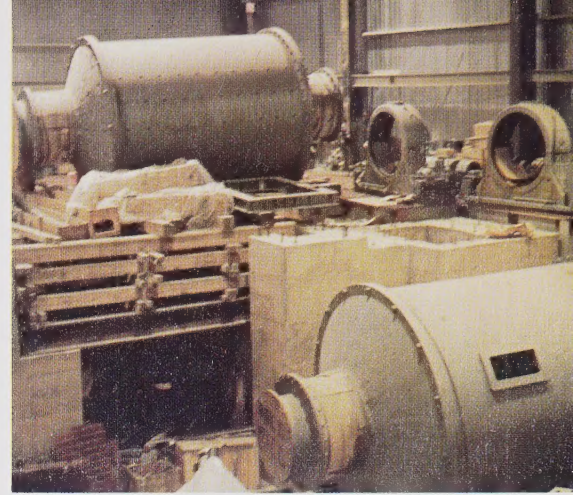
The major activity remaining prior to the commissioning of power generating and processing equipment is the construction relating to the water supply and tailings disposal systems. Final designs in these areas are currently under consideration by the regulatory authorities concerned. Construction should commence as soon as weather conditions permit and will involve the constructing of some nine miles of pipelines between the townsite and the concentrator and two small lakes two miles south of the mill.

Work continued on required infrastructure, notably in the townsite. A total of 24 buildings have now been erected providing accommodation for the construction personnel which later is to be used for the operating work force. The buildings provide a variety of accommodation and are designed to handle a mix of single-status personnel, working couples, and a limited number of families. Utilidors containing water and sewage services have been constructed and put into use, and experience through the winter of 1975-76 has been quite satisfactory.

Additional buildings will be erected in the townsite in 1976 and in particular the town centre which will accommodate essential services for those living at Strathcona Sound such as a nursing station, RCMP quarters, fire hall, classrooms, and some commercial space. Work will continue on construction of the airport and associated buildings and it is also hoped to do initial work on the road connecting Strathcona Sound with Arctic Bay. During the months of February to May, 1976, scheduled air service will be provided from Montreal via Nordair using jet aircraft and landing on a strip built on the ice of Strathcona Sound.

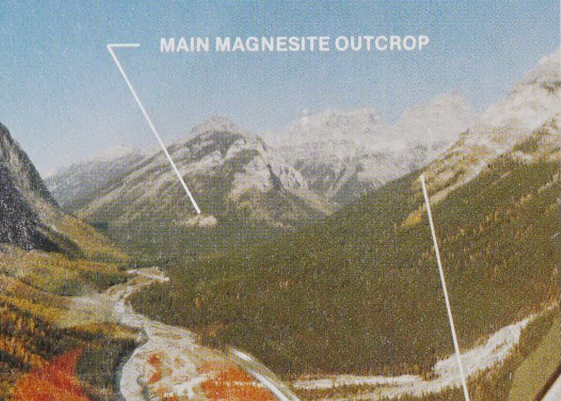
Recruiting of operating personnel for the project has started and most supervisory positions have been filled. Experience with employment of Inuit from the Baffin Region continues to be good with approximately 50 currently employed on construction activities. Several training programs have been carried out during the past year including the introduction of a schooling program whereby some Inuit employees worked on construction and went to school on alternate weeks.

Expenditures to the end of 1975 were approximately 39 million dollars. Estimated capital costs for completion of the project have risen to 60 million dollars exclusive of working capital requirements, but including all financing and interest costs during the construction phase. Considering the pioneering nature of the project and the inflationary economic conditions



Top picture, Rod mill and Ball mill being installed.
Picture above, flotation cells in place and below, Graham Farquharson, Project Manager with Inuit delegates visiting on-site school.
Bottom picture, lunch time at the "Big Dome" - November 1975.





Top picture, looking Northeast toward Eon Mountain.
Picture above, bulk sample pit and below, raw crystalline magnesite.



that have prevailed over the past two years our experience with costs to date are considered satisfactory. Because many of the major uncertainties of project construction have been successfully resolved, it is not expected that there will be any substantial revision to the current estimates of costs to complete the project. Arrangements have been made with Nanisivik's bankers and with the purchasers of concentrates for provision of working capital advances against production of concentrates.

Provided that the project continues to progress as it has to date we look forward to the advent of commercial production before the end of 1976 resulting in the first operating mine developed by your company.

Baymag Magnesite Project

In late 1975 MRI increased its interest to 51% in Baymag Mines Co. Limited which holds a 223 claim block near Radium Hot Springs in southeast British Columbia covering large reserves of high chemical grade crystalline magnesite.

Over the past several years considerable funds have been spent on this property in defining the quantity and quality of a portion of the main orebody as well as in production feasibility work necessary to determine the technical, marketing and financial aspects of the project. The main deposit outcrops along a strike length of 6,000 feet just above the valley floor along the lower flank of Eon Mountain. Fifty-four diamond drill holes totalling 14,000 feet of drilling were completed in the southern 1,500 feet of strike length of this deposit. This drilling has outlined a deposit wedge shaped in cross section and open to the north, with a maximum thickness of 450 feet, with very little overburden and amenable to open pit mining. The tonnage and grades of the drilled portion of the main lower Mt. Eon deposit were determined as follows with all grades expressed on a burned basis:

	Drilled Ore Tons	MgO Grade Range	Chemical Assays-Burned Basis				
			Average Grade - %				
			MgO	CaO	Fe ₂ O ₃	SiO ₂	Al ₂ O ₃
Low							
Grade	6,517,000	90% to 95%	94.55	2.87	1.58	.65	.34
Medium							
Grade	7,084,000	95% to 97%	96.04	2.34	.81	.51	.30
High							
Grade	7,664,000	97% +	97.63	1.49	.46	.28	.13
Total	21,265,000	90% +	96.16	2.20	.92	.47	.25

Magnesite, which is magnesium carbonate, is a source material for many products required for our industrialized way of life. Its most important use, which is the main market outlet Baymag is in the process of developing, is in the form of dead burned magnesite achieved by burning magnesite in a kiln at temperatures of up to 1,800°C to 2,000°C. This drives off carbon dioxide amounting to 52% of the original weight of the magnesite and allows the remaining magnesium oxide to recrystallize into a dense "dead burned magnesite".

This material is used to manufacture refractory bricks required as the inner protective lining of kilns, furnaces, ladles and other vessels in the cement, steel and metal smelting industries.

Pure magnesium oxide melts at 2,800°C but the presence of small amounts of other constituents lowers this melting point and influences the chemical stability of the product. The tolerable level of other constituents depends on the end use of the dead burn magnesite with applications being most demanding in the steel industry where refractory bricks must have good resistance to high temperature softening and to chemical attack by hot slag.

Naturally the strongest market demand and the highest prices apply to dead burn magnesite materials and the refractory bricks derived therefrom which yield the best refractory qualities in use. To develop a new mineral magnesite source in an optimum fashion, the degree of possible beneficiation of the raw material and its cost must be determined and compared to the resultant changes in market values and volumes. Work completed to date indicates that by using relatively simple and known beneficiation methods, the following range of chemical grades can be derived if raw magnesite in excess of 90% MgO on a burned basis is mined and maximum beneficiation is carried out:

Approximate Dead Burn Tonnage	Average Grade - Ignited Basis				
	MgO	CaO	Fe ₂ O ₃	SiO ₂	Al ₂ O ₃
10,000,000	98.5 %	.6 %	.6 %	.22 %	.11 %
	to	to	to	to	to
	99.2 %	.3 %	.37 %	.1 %	.04 %

In addition to reasonable chemical purity, a marketable dead burn magnesite must have acceptably low grain porosity, typically 3% to 12%, and high grain specific gravity, in the range of 3.1 to 3.45.

Densification in the dead burning phase of processing is more difficult to achieve, particularly for coarsely crystalline magnesite, if chemical purity is high. Thus there has to be some trade off of purity versus density. Bench scale work to date indicates Baymag's material will yield grain densities in the range of 3.25 to 3.35 using a single burn process with the more expensive double burn system yielding grain densities in the 3.3 to 3.45 range. Commercial scale dead burning tests are underway.

The world market for dead burn magnesite is several million tons per year and it is growing in line with the general trend of industrial growth. Prices in Europe range from \$150 per ton to \$325 per ton according to quality and location.

Although design is not yet complete, Baymag's current estimates of capital costs for a 200,000 ton per year sized project is \$75,000,000. Baymag is working toward completion of production feasibility study work and project design, and arrangements for marketing and financing with the objective of being able to make a production decision in 1976.

Other Properties

Aracca Oil and Gas Venture

The company, during 1975, maintained at minimal expense from 2% to 7.5% interest in some 15,500,000 acres of petroleum and natural gas rights off the west coast of Africa. The results of a seismic program conducted by a three-company farmee group of Block 9, South West Africa was not encouraging and the option was dropped. Fifty percent of the concession was surrendered and efforts are being made to farmout the remainder prior to its December, 1976 renewal date.

The Gambia concession comprising 1,300,000 acres has been farmed out to Chevron on a shooting option basis with the right to drill a well to earn 85% of the concession. A geological report has been prepared on Area "A" of Liberia and efforts are being made to have this 1,000,000 acre concession drilled by third parties.

Aquarius Mineral Exploration Partnership

MRI holds a 5% interest in the partnership which holds 187 mineral claims and 4 Placer leases.

Work continued during 1975 in the Fraser Canyon area of Southern British Columbia and on Texada Island. Additional claims were staked and a substantial program of geo-physical surveys, surface sampling and diamond drilling was carried out. Additional follow-up diamond drilling of gold, silver and base metal showings is underway.

Saskatchewan Helium Property

The Company continues to hold a 100% working interest, subject to a 12½ % royalty to Texaco Exploration, on a 4,960 acre helium lease covering an estimated 70 billion cubic foot inert gas reserve, containing 1.21% helium, near Mankota, Saskatchewan. Development of these reserves is dependent on marketing arrangements for the helium contained in the raw gas.

Montana Oil and Gas Play

The Company's U.S. subsidiary, Aceite Corp., expanded its holdings in the Sumatra oil field area to 7,882 net acres and arranged for the drilling of a Tyler Sand test well on a portion of its acreage. Aceite was carried at no well cost for an interest of one-third to casing point. The well was abandoned as a dry hole and other well possibilities are being appraised.

Consolidated Balance Sheet as at December 31, 1975**Assets**

	<u>1975</u>	<u>1974</u>
MINING PROPERTIES, at cost		
Nanisivik Mines Ltd. — zinc-lead mine (Note B)	\$39,108,224	\$17,570,067
Baymag Mines Co. Limited — magnesite project (Note C)	3,594,816	335,171
Other	15,694	5,500
	42,718,734	17,910,738
OIL AND GAS LEASES (Note D)	1,166,583	1,180,531
CASH AND SHORT-TERM DEPOSITS	1,534,387	796,461
ACCOUNTS RECEIVABLE (Note E-2)	3,370,518	78,459
OTHER ASSETS	73,139	10,424
	\$48,863,361	\$19,976,613


Liabilities

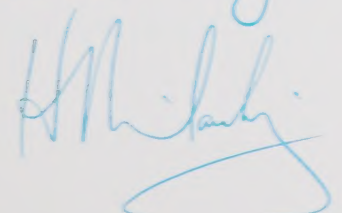
	1975	1974
NANISIVIK MINES LTD. PROJECT LOANS (Note B-3)	\$36,392,281	\$14,625,282
PURCHASE AGREEMENT — BAYMAG MINES CO. LIMITED (Note C-1)	2,025,000	—
BANK LOAN, secured	—	470,000
7% CONVERTIBLE DEBENTURES (Note E)	—	330,000
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	3,496,954	905,459
Total liabilities	41,914,235	16,330,741
MINORITY INTERESTS	1,974,966	—

Shareholders' Equity

CAPITAL STOCK (Note E)		
Authorized		
— 10,000,000 shares without par value		
Issued		
— 7,242,174 shares (1974 — 5,347,174 shares)	25,431,349	23,966,349
DEFICIT	20,457,189	20,320,477
	4,974,160	3,645,872
	<u>\$48,863,361</u>	<u>\$19,976,613</u>

Signed on behalf of the Board

 Director

 Director

Consolidated Statement of Loss and Deficit

For The Year Ended December 31, 1975

	1975	1974
Interest income	\$ 52,929	\$ —
Expenses		
General administrative	82,231	68,470
Interest	14,263	32,153
Abandoned projects and related expenses	91,334	58,297
Depreciation	1,813	1,762
Loss from operations of former subsidiary	—	54,996
	<u>189,641</u>	<u>215,678</u>
Loss for the year before extraordinary items	136,712	215,678
Extraordinary items		
Write-down of investment in Guatemala	—	50,000
Loss on sale of investment in former subsidiary	—	496,739
	<u>—</u>	<u>546,739</u>
NET LOSS FOR THE YEAR	136,712	762,417
Deficit at beginning of year	20,320,477	20,086,856
Less — portion applicable to former subsidiary	—	(528,796)
Deficit at end of year	<u>\$20,457,189</u>	<u>\$20,320,477</u>
Loss per common share		
Before extraordinary items	<u>\$.02</u>	<u>\$.04</u>
Net loss for the year	<u>\$.02</u>	<u>\$.15</u>

Consolidated Statement of Changes in Financial Position

For The Year Ended December 31, 1975

	1975	1974
Source of Funds		
Nanisivik Mines Ltd. zinc-lead mine project		
loans (Note B-3)	\$ 21,766,999	\$11,420,087
Increase in accounts payable and		
accrued liabilities	2,591,495	798,203
Purchase agreement — Baymag Mines Co. Limited		
(Note C-1)	2,275,000	—
Minority interests	1,974,966	—
Issue of shares (Note E)	1,465,000	284,900
Bank loan	—	220,000
Proceeds on sale of subsidiary company	—	145,000
	30,073,460	12,868,190
 Application of Funds		
To operations		
Loss before extraordinary items	136,712	215,678
Items not requiring an outlay of funds		
Property written-off	(70,613)	(42,633)
Depreciation	(1,813)	(1,762)
Items included in income of former subsidiary	—	(50,247)
	64,286	121,036
Development of mining properties	24,807,996	11,538,421
Increase in accounts receivable	3,292,059	—
Repayment of bank loan	470,000	—
Conversion of 7 % debentures (Note E)	330,000	—
Payment on purchase agreement — Baymag		
Mines Co. Limited	250,000	—
Increase in other assets	64,528	53,489
Other project expenditures	56,665	196,813
Repayment of advances	—	250,000
	29,335,534	12,159,759
Increase in cash and short-term deposits	\$ 737,926	\$ 708,431

Notes to the Consolidated Financial Statements

December 31, 1975

A. Summary of Accounting Policies

1. Principles of Consolidation

The consolidated financial statements include the accounts of the company and its following subsidiaries, all of whose projects are in the development stage:

Nanisivik Mines Ltd. ("Nanisivik")	— 59.5% owned
Baymag Mines Co. Limited ("Baymag")	— 51% owned
Aceite Corp. ("Aceite")	— 100% owned

The excess of the company's cost of investment in Nanisivik and Baymag over its interest in their net book values on acquisition has been assigned to the asset values of their respective mineral properties.

2. Exploration and Development Costs

All direct and indirect costs related to the exploration and development of mineral properties and oil and gas leases are capitalized. Depletion of such costs will be provided for by the unit of production method based on estimated recoverable reserves. If it is determined that a project will not attain commercial production, the related costs are written off.

3. Foreign Exchange

Long term liabilities payable in foreign currency have been converted into Canadian currency at historical exchange rates. Revenue and expense items have been converted into Canadian currency at average exchange rates during the year.

B. Nanisivik Zinc-Lead Mining Project

1. Agreements

The Company assigned its interests in the zinc-lead mining property on Baffin Island to Nanisivik in exchange for 77.5% of the issued capital of Nanisivik.

By placing the property in production (scheduled for late 1976), Nanisivik will have earned a 100% working interest in the Project, subject to a 35% net profits interest after recovery of certain development and exploration costs.

The Government of Canada has agreed to provide loans and certain infrastructure facilities for the Project for which it will be entitled to receive 18% of the issued capital of Nanisivik from the Company.

Metallgesellschaft AG, Billiton BV, and Texasgulf Inc. are committed to provide overrun financing for the Project. Additional shares owned by the Company in Nanisivik may be earned by those companies by providing such overrun financing. Based on the current estimated cost of completion of the Project (\$60,000,000, exclusive of working capital), the company will retain in excess of 50% of the issued capital of Nanisivik.

2. Project Costs Capitalized

	1975	1974
Mining property	\$ 2,383,746	\$ 1,922,262
Exploration costs	4,173,995	4,152,093
Mine and mine site development	17,052,825	11,495,712
Mine site service facilities	3,654,909	—
Indirect costs	10,507,194	—
Deferred finance costs	1,003,064	—
Other costs	332,491	—
	<u>\$39,108,224</u>	<u>\$17,570,067</u>

3. Project Loans

	1975	1974
SENIOR LOANS		
Kreditanstalt Für Wiederaufbau	\$ 8,757,095	\$ —
Toronto-Dominion Bank	9,000,000	—
Citicorp Ltd.	8,000,000	—
	25,757,095	—
SUBORDINATED LOANS		
Metallgesellschaft AG	3,000,000	—
Billiton BV	3,000,000	—
Accrued interest	461,191	—
	6,461,191	—
OTHER LOANS		
Metallgesellschaft AG	521,900	5,676,123
Billiton BV	521,900	5,818,964
Texasgulf Inc.	3,130,195	3,130,195
	4,173,995	14,625,282
	\$36,392,281	\$14,625,282

(a) Senior Loans:

Provision is made under a loan agreement between Nanisivik and the Toronto-Dominion Bank and Citicorp Ltd. for loans for the Project of up to \$17,000,000 (Canadian equivalent). Pursuant to an agreement of the same date with Kreditanstalt Für Wiederaufbau, a German state bank, provision is made for a loan for the Project of up to 22,000,000 Deutsche Marks (approximately \$8,000,000 Canadian equivalent). Metallgesellschaft AG and Billiton BV have guaranteed the obligations of Nanisivik under the Senior loan agreements, and the Company has in turn guaranteed the performance of the guarantee by Metallgesellschaft AG and Billiton BV.

The amount due to the Toronto-Dominion Bank at December 31, 1975 was \$8,873,186 U.S., repayable in annual installments during the period March 31, 1978 to March 31, 1983. The loan carries an interest rate of the LIBO rate plus 1 1/4 % per annum.

The amount due to Citicorp Ltd. is repayable in annual installments during the period March 31, 1978 to March 31, 1983. The loan carries an interest rate equivalent to that of the 90 day Canadian commercial paper rate, plus 1 3/4 % per annum.

The amount due to Kreditanstalt Für Wiederaufbau at December 31, 1975 was 22,000,000 Deutsche Marks, repayable in annual installments during the period March 15, 1980 to March 15, 1986. The loan carries an interest rate of 1 1/4 % per annum plus the effective rate of borrowing equivalent funds on the German capital market.

The average rate of interest in effect in December of 1975 on Senior loans was 9.67 %.

(b) Subordinated loans:

Metallgesellschaft AG and Billiton BV have agreed to provide additional loans totalling \$8,000,000 to Nanisivik, of which \$6,000,000 had been drawn at December 31, 1975. These loans are subordinated to the Senior Loans provided by the banks.

The amounts due to Metallgesellschaft AG and Billiton BV carry an interest rate of 1/4 of 1 % above the weighted average interest on the Senior Loans, and after the repayment of the Senior Loans, at a rate of 2 1/4 % above the prime lending rate of the Toronto-Dominion Bank. The amounts due to Metallgesellschaft AG and Billiton BV at December 31, 1975 were 7,504,733 Deutsche Marks and 7,653,559 Dutch Guilders respectively.

The loans are repayable on January 1, 1986 and can be extended under certain circumstances.

(c) Security

Senior and subordinated loans are secured by fixed and specific charges on the Mining Property and on all plant, fixed machinery and fixed equipment purchased or acquired by the company, and by a floating charge on the undertaking and all other property and assets of the company.

4. *Cost to Complete*

The current estimate of the cost at completion for the Project is approximately \$60,000,000 (exclusive of working capital requirements). Financing has been arranged for this amount as well as for working capital requirements.

C. **Baymag Magnesite Project**

1. *Acquisition of Controlling Interest in Baymag Mines Co. Limited.*

During the year, the Company acquired 1,600,000 additional shares of Baymag Mines Co. Limited for \$2,275,000 payable by installments without interest. A portion of the purchased shares are held in trust as sole security for the outstanding balance.

For the initial payment of \$250,000 to the Vendor, the Company received 250,000 shares of Baymag. For payments of \$125,000 due on September 1, 1977 and September 1, 1978, 250,000 shares will be delivered by the Trustee to the Company. The balance of 1,100,000 shares will be delivered to the Company upon the final annual payment of \$150,000 on September 1, 1990. At December 31, 1975 payments of \$2,025,000 in total remained to be made under terms of the Agreement.

The Agreement provides that the only remedy of the Vendor in the event of the failure of the Company to make any payment is the return of the shares then being held by the Trustee.

The Company also acquired 35,210 treasury shares of Baymag during 1975 at 30¢ per share.

As at December 31, 1975 the Company owned 1,959,690 shares of Baymag or 51 % of the outstanding capital stock of Baymag.

2. *Magnesite Claims*

Baymag owns mineral claims covering high-grade magnesite deposits in British Columbia.

3. *Project Costs Capitalized*

Claims	\$ 2,783,214
Exploration and development	519,481
Indirect costs	292,121
	<u>\$ 3,594,816</u>

4. *Royalty Agreements*

Baymag is required to pay a royalty of \$2 per long ton of dead burned magnesite sold from the mining property.

D. **Oil and Gas Leases**

The helium property in Saskatchewan is carried at \$1,002,256 which represents the cost of leases, development expenses and related equipment.

E. **Capital Stock**

1. Issued stock is summarized as follows:

	1975		1974	
	Shares	Amount	Shares	Amount
Balance at beginning of year . .	5,347,174	\$23,966,349	4,933,841	\$23,681,449
Issued				
On conversion of				
7 % debentures	660,000	330,000	—	—
For warrants exercised	660,000	330,000	—	—
For cash	400,000	700,000	—	—
1975 Employees' Share				
Purchase Plan	175,000	105,000	—	—
For repayment of advances . .	—	—	333,333	250,000
For options exercised	—	—	80,000	34,900
Balance at end of year	7,242,174	\$25,431,349	5,347,174	\$23,966,349

2. A total of 350,000 of the company's treasury shares were reserved for allotment to designated employees pursuant to the company's 1975 Employees' Share Purchase Plan. Of these, 175,000 remained reserved for allotment at December 31, 1975. Accounts receivable include \$150,000 owing to the Company pursuant to the plan.

F. Income Taxes

At December 31, 1975 the Company and its subsidiaries had available the following approximate amounts which may be deducted from future taxable incomes and capital gains:

	<u>The Company</u>	<u>Nanisivik</u>	<u>Baymag</u>	<u>Aceite</u>
Exploration and development expenditures and undepreciated capital cost	\$2,316,000	\$32,574,000	\$541,000	\$113,000
Non-capital losses	106,000	—	118,000	—
Capital losses	421,000	—	—	—

G Remuneration of Directors and Senior Officers

The company has eight directors whose aggregate remuneration for the year as directors was \$3,250 (1974 - Nil). The company has three officers whose aggregate remuneration for the year as officers was \$50,000 (1974 - \$40,000). All of the officers are also directors.

Auditors' Report

The Shareholders
Mineral Resources International Limited

We have examined the consolidated balance sheet of Mineral Resources International Limited (an Ontario corporation) and its subsidiaries as at December 31, 1975 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 12, 1976

Touche Ross & Co.
Chartered Accountants.
